
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-36242

ADAMIS PHARMACEUTICALS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

82-0429727
(I.R.S. Employer
Identification Number)

11682 El Camino Real, Suite 300, San Diego, CA 92130
(Address of principal executive offices, including zip code)

(858) 997-2400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "larger accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the issuer's common stock, par value \$0.0001 per share, as of November 14, 2017, was 33,386,982.

ADAMIS PHARMACEUTICALS, INC.
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ADAMIS PHARMACEUTICALS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2017 (Unaudited)	December 31, 2016
CURRENT ASSETS		
Cash	\$ 23,312,476	\$ 4,090,651
Restricted Cash	1,004,818	1,005,109
Accounts Receivable, net	1,001,186	805,372
Inventories, net	996,088	942,067
Prepaid Expenses and Other Current Assets	209,909	227,040
Total Current Assets	<u>26,524,477</u>	<u>7,070,239</u>
LONG TERM ASSETS		
Security Deposits	42,500	42,500
Intangible Assets, net	16,305,710	18,136,044
Goodwill	7,640,622	7,640,622
Fixed Assets, net	5,795,256	4,897,007
Total Assets	<u>\$ 56,308,565</u>	<u>\$ 37,786,412</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,750,293	\$ 2,150,583
Deferred Revenue	37,390	54,478
Accrued Other Expenses	1,628,436	1,609,625
Accrued Bonuses	846,897	465,393
Bank Loans - Line of Credit	2,000,000	3,864,880
Bank Loans - Building and Equipment, current portion	479,433	465,965
Total Current Liabilities	<u>6,742,449</u>	<u>8,610,924</u>
LONG TERM LIABILITIES		
Deferred Tax Liability, net	828,556	828,556
Building and Equipment Loans, net of current portion	2,705,894	3,067,065
Total Liabilities	<u>10,276,899</u>	<u>12,506,545</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stock - Par Value \$.0001; 10,000,000 Shares Authorized; Series A-2 Convertible, Zero and 625,013 Issued and Outstanding at September 30, 2017 and December 31, 2016, Respectively	—	62
Common Stock - Par Value \$.0001; 100,000,000 Shares Authorized; 33,694,522 and 22,299,083 Issued, 33,386,982 and 21,991,543 Outstanding at September 30, 2017 and December 31, 2016, Respectively	3,369	2,230
Additional Paid-in Capital	152,005,442	113,741,412
Accumulated Deficit	(105,971,916)	(88,458,608)
Treasury Stock - 307,540 Shares, at cost	(5,229)	(5,229)
Total Stockholders' Equity	<u>46,031,666</u>	<u>25,279,867</u>
	<u>\$ 56,308,565</u>	<u>\$ 37,786,412</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

ADAMIS PHARMACEUTICALS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)
REVENUE, net	\$ 3,388,221	\$ 2,075,919	\$ 10,231,426	\$ 4,004,023
COST OF GOODS SOLD	2,092,270	1,821,372	5,638,283	3,167,402
Gross Profit	1,295,951	254,547	4,593,143	836,621
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,747,572	5,335,388	16,975,376	12,534,868
RESEARCH AND DEVELOPMENT	1,248,187	1,494,399	3,943,934	8,325,119
LOSS ON IMPAIRMENT OF FIXED ASSETS	96,346	—	96,346	—
Loss from Operations	(5,796,154)	(6,575,240)	(16,422,513)	(20,023,366)
OTHER INCOME (EXPENSE)				
Interest Expense	(52,635)	(70,234)	(179,540)	(142,625)
Interest Income	39,710	1,265	48,975	1,432
Inducement Expense for Exercise of Warrants	(960,230)	—	(960,230)	—
Change in Fair Value of Warrants	—	—	—	1,049,330
Change in Fair Value of Warrant Derivative Liabilities	—	—	—	348,141
Total Other Income (Expense), net	(973,155)	(68,969)	(1,090,795)	1,256,278
Net (Loss)	(6,769,309)	(6,644,209)	(17,513,308)	\$ (18,767,088)
Deemed Dividend on Preferred Stock	—	(1,374,229)	—	(1,374,229)
Net Loss Applicable to Common Stock	\$ (6,769,309)	\$ (8,018,438)	\$ (17,513,308)	\$ (20,141,317)
Basic and Diluted (Loss) Per Share:				
Basic and Diluted (Loss) Per Share	\$ (0.21)	\$ (0.41)	\$ (0.66)	\$ (1.25)
Basic and Diluted Weighted Average Shares Outstanding	31,509,050	19,606,190	26,651,249	16,154,022

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

ADAMIS PHARMACEUTICALS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2017	2016
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)	\$ (17,513,308)	\$ (18,767,088)
Adjustments to Reconcile Net (Loss) to Net		
Cash (Used in) Operating Activities:		
Stock Based Compensation	4,502,093	3,512,827
Stock Issued in Exchanged of Services	—	59,087
Inducement Expense for Exercise of Warrants	960,230	—
Deferred Revenue	(17,088)	44,179
Provision for Bad Debts	73,384	40,711
Change in Fair Value of Warrants	—	(1,049,330)
Change in Fair Value of Warrant Derivative Liabilities	—	(348,141)
Depreciation and Amortization Expense	2,318,417	1,752,012
Loss on Impairment of Fixed Assets	96,346	—
Change in Assets and Liabilities:		
(Increase) Decrease in, net of impact of USC acquisition:		
Accounts Receivable - Trade	(269,198)	(172,690)
Inventories	(54,021)	(112,910)
Prepaid Expenses and Other Current Assets	17,131	(130,940)
Increase (Decrease) in, net of impact of USC acquisition:		
Accounts Payable	(400,290)	(2,147,350)
Accrued Other Expenses and Bonuses	400,315	(554,792)
Net Cash (Used in) Operating Activities	<u>(9,885,989)</u>	<u>(17,874,425)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(1,456,841)	(16,832)
Purchase of Intangibles	(25,837)	—
Cash From Acquisition of USC	—	381,883
Cash Payment to Former Shareholders of USC	—	(32)
Net Cash Provided by (Used in) Investing Activities	<u>(1,482,678)</u>	<u>365,019</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Common Stock, net of issuance cost	16,036,134	10,216,080
Proceeds from Issuance of Preferred Stock, net of issuance cost	—	9,845,420
Proceeds from Exercise of Warrants, net of exercise cost	16,766,650	177,780
Proceeds (Payments) of Bank Loans	(2,212,583)	2,000,000
Net Cash Provided by Financing Activities	<u>30,590,201</u>	<u>22,239,280</u>
Increase in Cash	19,221,534	4,729,874
Cash and Restricted Cash:		
Beginning	5,095,760	4,080,648
Ending	<u>\$ 24,317,294</u>	<u>\$ 8,810,522</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

ADAMIS PHARMACEUTICALS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2017 (Unaudited)	2016 (Unaudited)
RECONCILIATION OF CASH AND RESTRICTED CASH		
Cash	\$ 23,312,476	\$ 7,810,522
Restricted Cash	1,004,818	1,000,000
Total Cash and Restricted Cash	\$ 24,317,294	8,810,522
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Income Taxes	\$ 13,645	\$ 2,400
Cash Paid for Interest	\$ 182,823	\$ 175,482
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES		
Series A-2 Preferred, Beneficial Conversion Feature	\$ —	\$ 1,374,229
Release of Warrants Liability Upon Exercise	\$ —	\$ 160,245

The accompanying notes are in an integral part of these Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Articles 8 and 10 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments and the elimination of intercompany accounts) considered necessary for a fair statement of all periods presented. The results of Adamis Pharmaceuticals Corporation's operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The following represents an update for the three and nine months ended September 30, 2017 to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of inventories is determined using the first-in, first-out ("FIFO") method. Inventories consist of compounding formulation raw materials, currently marketed products, and device supplies. A reserve for obsolescence is recorded monthly based on a review of inventory for obsolescence. Reserve for obsolescence was \$31,627 as of September 30, 2017.

Claims Liabilities

Our U.S. Compounding, Inc. ("USC") subsidiary was self-insured up to certain limits for health insurance through February 28, 2017. Beginning March 1, 2017, USC elected to participate in a fully insured health insurance plan. The Claims Payable related to the self-insured plan at September 30, 2017 was \$0.

Liquidity and Capital Resources

Our cash was \$24,317,294 and \$5,095,760 at September 30, 2017 and December 31, 2016, respectively, including approximately \$1.0 million in restricted cash held by Bear State Bank, N.A. as collateral for a \$2.0 million working capital line.

We prepared the condensed consolidated financial statements assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities during the normal course of business. In preparing these condensed consolidated financial statements, consideration was given to the Company's future business as described below, which may preclude the Company from realizing the value of certain assets.

The Company has significant operating cash flow deficiencies. The Company will need additional funding for future operations and the expenditures that will be required to conduct clinical, development and regulatory activities relating to the Company's product candidates, commercially launch products that may be approved by applicable regulatory authorities, market and sell products, satisfy existing obligations and liabilities, and otherwise support the Company's intended business activities and working capital needs. The preceding conditions raise substantial doubt about our ability to continue as a going concern. Management's plans include attempting to secure additional required funding through equity or debt financings, sales or out-licensing of intellectual property assets, seeking partnerships with other pharmaceutical companies or third parties to co-develop and fund research, development or commercialization efforts, or similar transactions. There is no assurance that the Company will be successful in obtaining the necessary funding to meet its business objectives.

Basic and Diluted (Loss) per Share

The Company computes basic loss per share by dividing the loss attributable to holders of common stock for the period by the weighted average number of shares of common stock outstanding during the period. The diluted loss per share calculation is based on the treasury stock method and gives effect to dilutive options, warrants, convertible notes, convertible preferred stock and other potential dilutive common stock. Except as noted below, the effect of common stock equivalents was anti-dilutive and was excluded from the calculation of weighted average shares outstanding. Potential dilutive securities, which are not included in diluted weighted average shares outstanding for the nine months ended September 30, 2017 and September 30, 2016 consist of outstanding equity classified warrants (3,189,052 and 9,194,044, respectively), outstanding options (6,598,817 and 4,403,519, respectively), outstanding restricted stock units (1,300,000 and 350,000, respectively), and convertible preferred stock (zero and 1,724,137, respectively).

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 supersedes the revenue recognition requirements in "Accounting Standard Codification 605 - Revenue Recognition" and most industry-specific guidance. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, applying the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date." ASU 2015-14 defers the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. We currently intend to retrospectively adopt ASU 2014-09 utilizing the deferred effective date of January 1, 2018, as provided by ASU 2015-14. We are in the process of evaluating the impact that adoption of this new standard will have on our consolidated financial statements and related disclosures. We expect to complete our implementation process prior to the adoption of ASU 2014-09 on January 1, 2018. Based on our preliminary analysis, we believe that the new standard will not have a material impact on our revenue recognition, which currently relates to sales of compounded pharmacy formulations and other pharmacy products by USC.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new amendments, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. This ASU is effective prospectively to impairment tests beginning January 1, 2020, with early adoption permitted. We adopted this guidance prospectively at the beginning of first quarter 2017, which will simplify our future goodwill impairment testing. The Company is continuing to evaluate the impact of adopting this guidance on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. ASU 2017-09 will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. We do not expect this new guidance to have a material impact on our consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. Part I of this update addresses public entities that issue warrants, convertible debt or convertible preferred stock that contain down round features. Part II of this update recharacterizes the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. This ASU is effective for public companies for the annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact that adoption of this standard may have on its consolidated financial statements.

Note 2: Acquisition of U.S. Compounding

On April 11, 2016, we acquired the net assets and assumed the principal debt obligations of USC in a merger transaction (the "Merger") pursuant to which we acquired USC and USC continued as a wholly owned subsidiary of the Company. The acquisition is accounted for using the purchase method of accounting. USC is registered as a drug compounding outsourcing facility under Section 503B of the U.S. Food, Drug & Cosmetic Act, as amended, and the U.S. Drug Quality and Security Act, and provides prescription compounded medications, including compounded sterile preparation and certain nonsterile drugs, to patients, physician clinics, hospitals, surgery centers and other clients throughout most of the United States. USC also provides certain veterinary pharmaceutical drugs for animals. The total consideration for the transaction was \$15,967,942.

The principal reasons for the acquisition of USC were (i) to expand the Company's product portfolio, (ii) provide revenues to the Company, and (iii) significantly increase the Company's manufacturing, sales, and marketing capabilities, which the Company believed would assist in the future in commercializing the Company's pipeline of product candidates if they are approved for marketing by applicable regulatory authorities, and diversify the Company's future revenue mix.

USC is included in our results of operations for the three and nine months ended September 30, 2017, and its results of operations after the acquisition date of April 11, 2016, but not before that date, are included in our results of operations for the three and nine months ended September 30, 2016. The acquisition did have a significant effect on our consolidated results of operations in the three and nine months ended September 30, 2017 compared to the comparable periods of the previous year, due to the size of the acquisition in relation to our overall consolidated results of operations.

Note 3: Inventories

The inventories of the Company consisted primarily of inventories of USC and approximately \$194,000 of raw materials for our FDA approved Epinephrine PFS product. As of September 30, 2017, inventories consisted of the following:

Finished Goods	\$	178,442
Raw Material		607,759
Devices		209,887
	<u>\$</u>	<u>996,088</u>

Reserve for obsolescence as of September 30, 2017, was \$31,627.

Note 4: Fixed Assets

In the third quarter of 2017, certain USC operational assets stored at an off-site location in Arkansas were impaired. The off-site facility sustained flood damage. Due to the standing water and humidity, it was determined that the equipment would not meet environmental quality standards required to compound either sterile or nonsterile pharmaceutical, drugs and formulations. Most of the equipment damaged was larger, bulky equipment including hoods, incubators, table presses, and lyophilizers. The Company recorded a loss on impairment of approximately \$96,000 for the net book value of the damaged assets.

Fixed Assets at September 30, 2017 is summarized in the table below:

Fixed Asset Description	Costs	Accumulated Depreciation	Net Book Value
Land	\$ 460,000	\$ —	\$ 460,000
Building	3,040,000	(148,904)	2,891,096
Machinery & Equipment	2,788,282	(673,479)	2,114,803
Furniture & Fixtures	129,630	(50,197)	79,433
Automobile	9,395	(5,594)	3,801
Leasehold Improvements	284,037	(37,914)	246,123
	<u>\$ 6,711,344</u>	<u>\$ (916,088)</u>	<u>\$ 5,795,256</u>

For the three months and nine months ended September 30, 2017, depreciation and amortization expense was \$139,045 and \$462,246, respectively.

Note 5: Intangible Assets and Goodwill

The Company's intangible assets at September 30, 2017, consisted of the following:

Intangible Asset Description	Amortization Periods (in years)	Cost	Accumulated Amortization	Net Carrying Value
Taper DPI Intellectual Property	10 years	\$ 9,708,700	\$ (3,640,762)	\$ 6,067,938
Non-Competition Agreement	3 years	1,639,000	(802,806)	836,194
FDA 503B Registration and Compliance	10 years	3,963,000	(582,341)	3,380,659
Customer Relationships	10 years	5,572,000	(818,774)	4,753,226
Website Design	3 years	16,162	(3,144)	13,018
Total Definite-lived Assets		<u>20,898,862</u>	<u>(5,847,827)</u>	<u>15,051,035</u>
Trade Name and Brand	Indefinite	1,245,000	—	1,245,000
Symjepi Domain Name	Indefinite	9,675	—	9,675
		<u>\$ 22,153,537</u>	<u>\$ (5,847,827)</u>	<u>\$ 16,305,710</u>

For the three months and nine months ended September 30, 2017, amortization expense was \$619,024 and \$1,856,171, respectively.

Estimated future amortization expense for the Company's intangible assets at September 30, 2017, is as follows:

Remainder of 2017	\$	619,022
2018		2,476,091
2019		2,083,034
2020		1,925,268
2021		1,924,370
Thereafter		6,023,250
	\$	<u>15,051,035</u>

Goodwill recorded at the acquisition of USC was approximately \$2,225,000. In addition, the Company recorded a deferred tax liability of approximately \$5,416,000 through acquisition goodwill. The carrying value of our goodwill as of September 30, 2017, was approximately \$7,641,000.

Note 6: Sale of Preferred Stock

August 2014 Series A Preferred Stock and Warrants

In August 2014, the Company completed a private placement transaction with a small number of sophisticated investors pursuant to which the Company issued 1,418,439 shares of Series A Convertible Preferred Stock ("Series A Preferred") and warrants to purchase up to 1,418,439 shares of common stock or Series A Preferred. The shares of Series A Preferred and warrants were sold in units, with each unit consisting of one share and one warrant, at a purchase price of \$3.525 per unit. The Series A Preferred is convertible into shares of common stock at an initial conversion rate of 1-for-1 (subject to stock splits, reverse stock splits and similar events) at any time at the discretion of the investor. The exercise price of the warrants is \$3.40 per share, and the warrants are exercisable for five years. If the Company grants, issues or sells any Common Stock equivalents pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then a holder of Series A Preferred or warrants will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the holder could have acquired if the holder had held the number of shares of Common Stock acquirable upon conversion of the Series A Preferred or exercise of the warrants (without regard to any limitations on conversion). If the Company declares or makes any dividend or other distribution of its assets (or rights to acquire its assets) to holders of Common Stock, then a holder of Series A Preferred or warrants is entitled to participate in such distribution to the same extent as if the holder had held the number of shares of Common Stock acquirable upon complete conversion of the Series A Preferred or exercise of the warrants (without regard to any limitations on conversion). In accordance with the transaction agreements, the Company filed a registration statement with the SEC, which has been declared effective, to register the resale from time to time of shares of common stock underlying the Series A Preferred and the warrants.

The warrants include call provisions giving the Company the option, subject to various conditions, to call the exercise of any or all of the 2014 warrants, by giving a call notice to the warrant holders. We may give a call notice only within (i) if a holder and its affiliates beneficially own 2% or less of our outstanding common stock, then 10 trading days after any 20-consecutive trading day period during which the daily volume weighted average price of the common stock (the "VWAP") is not less than 250% of the exercise price for the 2014 warrants in effect for 10 out of such 20-consecutive trading day period, and (ii) if holder and its affiliates beneficially own more than 2% of the outstanding common stock, five trading days after any 30-consecutive trading day period during which the VWAP of the common stock is not less than 250% of the exercise price then in effect for 25 out of such 30-consecutive trading day period. The exercise price of the 2014 warrants is \$3.40 per share, and accordingly 250% of such exercise price is \$8.50 per share. During a "call period" of 30 trading days following the date on which the call notice is deemed given and effective (with the call period being extended for one trading day for each trading day during the call period during which the VWAP is less than 225% of the exercise price then in effect during the call period), a holder may exercise the 2014 warrant and purchase the called warrant shares. Subject to the foregoing and to the other provisions of the 2014 warrants, if the holder fails to timely exercise the called 2014 warrant, the Company may cancel the unexercised called warrant (or portion thereof that was called). As of September 30, 2017, the investors have exercised 2014 warrants to acquire 1,418,439 shares of common stock (see Note 10), with no warrants remaining outstanding.

As of December 31, 2016, the investors have converted 1,418,439 shares of Series A Preferred into an equal number of shares of common stock, with zero Series A Preferred shares remaining outstanding.

January 2016 Series A-1 Preferred Stock and Warrants

On January 26, 2016, the Company completed a private placement transaction with a small number of accredited investors pursuant to which the Company issued 1,183,432 shares of Series A-1 Convertible Preferred Stock (“Series A-1 Preferred”) and warrants to purchase up to 1,183,432 shares of common stock or Series A-1 Preferred. The shares of Series A-1 Preferred and warrants were sold in units, with each unit consisting of one share and one warrant, at a purchase price of \$4.225 per unit. The Series A-1 Preferred is convertible into shares of common stock at an initial conversion rate of 1-for-1 (subject to stock splits, reverse stock splits and similar events) at any time at the discretion of the investor. The exercise price of the warrants is \$4.10 per share, and the warrants are exercisable at any time over the five year term of the warrants. If the Company grants, issues or sells any Common Stock equivalents pro rata to the record holders of any class of shares of Common Stock (the “Purchase Rights”), then a holder of Series A-1 Preferred or warrants will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the holder could have acquired if the holder had held the number of shares of Common Stock acquirable upon conversion of the Series A-1 Preferred or exercise of the warrants (without regard to any limitations on conversion). If the Company declares or makes any dividend or other distribution of its assets (or rights to acquire its assets) to holders of Common Stock, then a holder of Series A-1 Preferred or warrants is entitled to participate in such distribution to the same extent as if the holder had held the number of shares of Common Stock acquirable upon complete conversion of the Series A-1 Preferred or exercise of the warrants (without regard to any limitations on conversion). Gross proceeds to the Company were approximately \$5,000,000 excluding transactions costs, fees and expenses. In accordance with the transaction agreements, the Company filed a registration statement with the SEC, which has been declared effective, to register the resale from time to time of shares of common stock underlying the Series A-1 Preferred and the warrants. The January 2016 warrants include call provisions that are generally similar to the 2014 warrants. The exercise price of the January 2016 warrants is \$4.10 per share, and accordingly 250% of such exercise price is \$10.25 per share. As of September 30, 2017, January 2016 warrants to purchase 1,183,432 shares remain outstanding.

As of December 31, 2016, the investors have converted 1,183,432 shares of Series A-1 Preferred into an equal number of shares of common stock, with no shares of Series A-1 Preferred shares remaining outstanding.

July 2016 Series A-2 Preferred Stock and Warrants

On July 11, 2016, the Company completed a private placement transaction with a small number of accredited investors pursuant to which the Company issued 1,724,137 shares of Series A-2 Convertible Preferred Stock (“Series A-2 Preferred”) and warrants to purchase up to 1,724,137 shares of common stock or Series A-2 Preferred. The shares of Series A-2 Preferred and warrants were sold in units, with each unit consisting of one share and one warrant, at a purchase price of \$2.90 per unit. The Series A-2 Preferred is convertible into shares of common stock at an initial conversion rate of 1-for-1 (subject to stock splits, reverse stock splits and similar events) at any time at the discretion of the investor. The exercise price of the warrants is \$2.90 per share, and the warrants are exercisable at any time over the five year term of the warrants. If the Company grants, issues or sells any Common Stock equivalents pro rata to the record holders of any class of shares of Common Stock (the “Purchase Rights”), then a holder of Series A-2 Preferred or warrants will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the holder could have acquired if the holder had held the number of shares of Common Stock acquirable upon conversion of the Series A-2 Preferred or exercise of the warrants (without regard to any limitations on conversion). If the Company declares or makes any dividend or other distribution of its assets (or rights to acquire its assets) to holders of Common Stock, then a holder of Series A-2 Preferred or warrants is entitled to participate in such distribution to the same extent as if the holder had held the number of shares of Common Stock acquirable upon complete conversion of the Series A-2 Preferred or exercise of the warrants (without regard to any limitations on conversion). Gross proceeds to the Company were approximately \$5,000,000 excluding transactions costs, fees and expenses. In accordance with the transaction agreements, the Company filed a registration statement with the SEC, which has been declared effective, to register the resale from time to time of shares of common stock underlying the Series A-2 Preferred and the warrants. The July 2016 warrants include call provisions that are generally similar to the 2014 warrants. The exercise price of the July 2016 warrants is \$2.90 per share, and accordingly 250% of such exercise price is \$7.25 per share. As of September 30, 2017, the investors have exercised July 2016 warrants to acquire 1,531,723 shares of common stock (see Note 10), with 192,414 warrants remaining outstanding.

On the date of the issuance, the fair value of the common stock issuable upon conversion of the Series A-2 preferred stock was greater than the proceeds received for the Series A-2 Preferred. As such, the Company accounted for the beneficial conversion feature under ASC 470-20, *Debt with Conversion and Other Options*. The Company identified a deemed dividend charge of approximately \$1,374,000 for the recognition of a discount on the Series A-2 Preferred, resulting from an allocation of the proceeds received between the warrants and the beneficial conversion feature embedded within the Series A-2 Preferred, which equals the amount by which the estimated fair value of the common stock issuable upon conversion of the issued Series A-2 convertible preferred stock exceeded the proceeds from such issuance. The deemed dividend on preferred stock was a non-cash transaction and reflected below the net loss in the Consolidated Statement of Operations for the year ending December 31, 2016, to arrive at the net loss applicable to common stock.

For the periods ended December 31, 2016 and September 30, 2017, the investors have converted 1,099,124 shares and 625,013 shares, respectively, of Series A-2 Preferred into an equal number of shares of common stock, with no shares of Series A-2 Preferred Shares remaining outstanding as of September 30, 2017.

Note 7: Debt

Ben Franklin Note

Biosyn, Inc., a wholly owned subsidiary of the Company, issued a note payable to Ben Franklin Technology Center of Southeastern Pennsylvania (“Ben Franklin Note”) in October 1992, in connection with funding the development of Savvy, a compound then under development to prevent the transmission of HIV/AIDS.

The Ben Franklin Note was recorded at its estimated fair value of \$205,000 and was assumed by the Company as an obligation in connection with its acquisition of Biosyn in 2004. The repayment terms of the non-interest bearing obligation include the remittance of an annual fixed percentage of 3.0% applied to future revenues of Biosyn, if any, until the principal balance of \$777,902 (face amount) is satisfied. Under the terms of the obligation, revenues are defined to exclude the value of unrestricted research and development funding received by Biosyn from nonprofit sources. Absent a material breach of contract or other event of default, there is no obligation to repay the amounts in the absence of future Biosyn revenues. The Company accreted the discount of \$572,902 against earnings using the interest rate method (approximately 46%) over the discount period of five years, which was estimated in connection with the Ben Franklin Note’s valuation at the time of the acquisition.

Accounting principles generally accepted in the United States emphasize market-based measurement through the use of valuation techniques that maximize the use of observable or market-based inputs. The Ben Franklin Note’s peculiar repayment terms outlined above affects its comparability with main stream market issues and also affects its transferability. The value of the Ben Franklin Note would also be impacted by the ability to estimate Biosyn’s expected future revenues which in turn hinge largely upon future efforts to commercialize the product candidate, the results of which efforts are not known by the Company. Given the above factors and therefore the lack of market comparability, the Ben Franklin Note would be valued based on Level 3 inputs (see Note 8). As such, management has determined that the Ben Franklin Note will have no future cash flows, as we do not believe the product will create a revenue stream in the future. As a result, the Note had no fair market value at the time of the merger in April 2009 between the Company (which was then named Cellegy Pharmaceuticals, Inc.) and the corporation then-named Adamis Pharmaceuticals Corporation.

Working Capital Line of Credit

On March 28, 2016, the Company entered into a loan and security agreement (sometimes referred to as the “Adamis Working Capital Line”) with Bear State Bank, N.A. (the “Lender” or the “Bank”), pursuant to which the Company may borrow up to an aggregate of \$2,000,000 to provide working capital to USC, subject to the terms and conditions of the loan agreement. Interest on amounts borrowed under the Adamis Working Capital Line accrues at a rate equal to the prime interest rate, as defined in the agreement. Interest payments are required to be made quarterly. As amended effective March 31, 2017, the entire outstanding principal balance, and all accrued and unpaid interest and all other sums payable pursuant to the loan documents, are due and payable on March 1, 2018, or sooner upon the occurrence of certain events as provided in the loan agreement and related documents. The Company’s obligations under the loan agreement are secured by certain collateral, including without limitation its interest in amounts that it has loaned to USC, and a warrant that the Company issued to the Bank to purchase up to 1,000,000 shares of the Company’s common stock at an exercise price equal to par value per share, exercisable only if the Company is in default under the loan agreement or related loan documents.

On November 10, 2016, the Adamis Working Capital Line with the Bank was amended to include a Certificate of Deposit for \$1.0 million as additional collateral to the working capital line of credit, and to make certain other amendments to the loan documents relating to the Adamis Working Capital Line. The \$1.0 million in Certificate of Deposit with the Bank, included as collateral, was recorded as Restricted Cash.

As of September 30, 2017 and December 31, 2016, the loan balance on the Adamis Working Capital Line of credit was \$2,000,000. Interest expense related to the loan was approximately \$21,722 and \$61,125 for the three and nine months ended September 30, 2017, respectively.

Loans Assumed from Acquisition of USC:

Building Loan

In connection with the closing of the Merger and the transactions contemplated by the Merger Agreement, 4 HIMS, LLC, an entity of which Eddie Glover, the chief executive officer of USC, and certain other former stockholders of USC are members, agreed to sell to the Company, the building and property owned by 4 HIMS on which USC's offices are located, in consideration of the Company being added as an additional "borrower" and assuming the obligations under the loan agreement, promissory note and related loan documents that 4 HIMS and certain other parties previously entered into with the Lender (the "4 HIMS Loan Documents").

On November 10, 2016, a Loan Amendment and Assumption Agreement was entered with into the Bank. Pursuant to the agreement, the Company agreed to pay the Bank monthly payments of principal and interest of \$15,411, with a final monthly payment and any other amounts due under the 4 HIMS Loan Documents due and payable in August 2019.

As of September 30, 2017 and December 31, 2016, the outstanding principal balance owed on the applicable note was approximately \$2,371,000 and \$2,441,000, respectively. The loan currently bears an interest of 3.75% per year and interest expense for the three and nine months ended September 30, 2017 was approximately \$23,000 and \$68,000, respectively.

USC Working Capital Loan

In connection with our acquisition of USC, Adamis agreed to be added as a Borrower and to assume the obligations as a Borrower under the USC Working Capital Loan Agreement and related promissory note and other related loan documents (the "USC Working Capital Loan Documents"). Under the USC Working Capital Loan Agreement, Lender agreed to loan funds to USC, as the "Borrower," up to an aggregate principal amount of \$2,500,000, evidenced by the USC Working Capital Note. Borrowings are limited to 80% of qualified trade accounts receivables and 50% of qualified inventories as determined under the USC Working Capital Loan Documents, and are collateralized with trade accounts receivables and inventory.

On November 10, 2016, the Company and Lender agreed to amend the USC Working Capital Loan Documents to provide that the personal property securing the Borrower's obligations under the loan documents will also secure the Borrower's obligations under the other USC Loan Documents with the Lender. In addition, a new financial covenant replaced the previous financial covenants, providing that USC will, at all times during the term of the loan, maintain a "Cash Flow Coverage Ratio" of not less than 1.2:1. "Cash Flow Coverage Ratio" is defined as: (i) net income plus non-cash expense items including, but not limited to, depreciation expense, amortization expense and option expense for the month in which the measurement date occurs times 12; divided by (ii) the cash required for payments of interest for the prospective twelve (12) month period and current maturities of principal on all outstanding debt to any person or entity, including without limitation to debt by the Company to the Lender. The Cash Flow Coverage Ratio will be measured on the last day of each December, March, June and September, commencing on December 31, 2016. Under the amendment, in lieu of compliance with the foregoing covenant, Borrower has the option, at the time of each quarterly measuring period, of making a principal reduction in the amount of Two Hundred Fifty Thousand Dollars (\$250,000).

In addition, pursuant to the amendment, Borrower and Lender agreed that certain other financial covenants set forth in the loan agreement included in the 4 HIMS Loan Documents, the loan agreement included in the Tribute Loan Documents, and the loan agreement included in the USC Equipment Loan Agreement, as well as the original USC Working Capital Loan Agreement described above, are waived for the remainder of the term of the respective loans. The USC Working Capital Loan has no outstanding balance, and its term expired on September 30, 2017. In November 2017, the Company agreed with the Lender to extend the term of the USC Working Capital Loan agreement to February 28, 2018.

As of September 30, 2017 and December 31, 2016, the outstanding unpaid principal balance under the USC Working Capital Loan Agreement was approximately \$0 and \$1,864,000, respectively. The note accrued interest at 3.75% per year, and interest expense for the three and nine months ended September 30, 2017 was approximately \$0 and \$29,000, respectively.

Equipment Loans, Consolidated

Equipment Loan, Tribute. In connection with the Merger, Tribute Labs, LLC, a Nevada limited liability company and former related party of USC ("Tribute" or "Borrower") assigned to Adamis all of its rights under the loan agreement, promissory note and related loan documents that Tribute and certain other parties previously entered into with the Lender (the "Tribute Loan Documents"). Adamis agreed to become an additional co-borrower and to assume Borrower's obligations under the Tribute Loan Documents, in consideration of the transfer to USC of laboratory equipment owned by Tribute and used to perform testing services for USC's formulations, and Lender consented to such assignment. The outstanding unpaid principal balance under the applicable note that was consolidated, as described below, to one equipment loan was approximately \$518,000. Prior to the consolidation, the loan had an interest rate of 4.75% per year.

USC Equipment Loan. In connection with the Merger, Adamis agreed to become a Borrower and to assume the obligations as a Borrower under the USC Equipment Loan Agreement and the related USC Equipment Loan Documents. Under the USC Equipment Loan Agreement, Lender agreed to loan funds to USC, as the “Borrower,” up to an aggregate principal amount of \$700,000, with amounts loaned evidenced by the Commercial Line of Credit Agreement and Note (the “USC Equipment Note”). The loan is collateralized by USC’s property and equipment. The outstanding unpaid principal balance under the USC Equipment Note that was consolidated to one equipment loan was approximately \$635,000. The note had an interest rate of 3.25% per year.

Consolidated Equipment Loans. On November 10, 2016, the Company and the Lender agreed to the amendment and consolidation of the above USC and Tribute equipment loans. The principal amount of the consolidated loans is \$1,152,890 with an interest rate of 3.75% per annum. The loan is payable in three years at an equal monthly amortization of \$33,940 commencing on November 1, 2016, and continuing on the first day of each succeeding month through October 1, 2019. As of September 30, 2017 and December 31, 2016, the outstanding unpaid principal balance was approximately \$815,000 and \$1,092,000, respectively. Interest expense for the three and nine months ended September 30, 2017 was approximately \$8,000 and \$27,000, respectively.

Loan Amendment, Forbearance and Assumption Agreement

In connection with our acquisition of USC in April 2016, Lender, Adamis, USC, 4 HIMS and Tribute (USC, 4 HIMS and Tribute sometimes referred to as the “Initial Loan Parties” and together with Adamis, collectively the “Loan Parties”), and certain individual guarantors, entered into a Loan Amendment, Forbearance and Assumption Agreement (the “Loan Amendment Agreement”).

Pursuant to the Loan Amendment Agreement, Adamis was added as a “Borrower” and co-borrower under the loan agreements and related loan documents between USC (and certain other entities) and Lender (the “USC Loan Documents”), and assumed all of the rights, duties, liabilities and obligations as a Borrower and a party under the USC Loan Documents, jointly and severally with the current borrower or borrowers under each of the USC Loan Documents. As part of the Loan Amendment Agreement, the parties also agreed that the real and personal property securing each of the USC Loans will also secure each of the other USC Loans, as well as the Adamis Working Capital Line of \$2.0 million. Except as expressly set forth in the Loan Amendment Agreement, as amended, the terms and provisions set forth in the USC Loan Documents were not modified and remain in full force and effect.

The notes evidencing the foregoing loans from the Lender are subject to customary subjective acceleration clauses, effective upon a material impairment in collateral, a material adverse change in the Company’s business or financial condition, or a material impairment in the Company’s ability to repay the note.

At September 30, 2017, the outstanding principal maturities of the amended long-term debts were as follows:

Years ending December 31,	Building Loan		Equipment Loan		Total
2017	\$	23,837	\$	94,396	\$ 118,233
2018		97,396		386,596	483,992
2019		2,249,508		333,594	2,583,102
Total	\$	<u>2,370,741</u>	\$	<u>814,586</u>	<u>\$ 3,185,327</u>

Note 8: Derivative Liabilities and Fair Value Measurements

Accounting Standards Codification (“ASC”) 815 - Derivatives and Hedging, provides guidance to determine what types of instruments, or embedded features in an instrument, are considered derivatives. This guidance can affect the accounting for convertible instruments that contain provisions to protect holders from a decline in the stock price, or down-round provisions.

The Company recognizes the derivative liabilities at their respective fair values at inception and on each reporting date. The Company values its financial assets and liabilities on a recurring basis and certain nonfinancial assets and nonfinancial liabilities on a nonrecurring basis based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

The Company recognizes derivative liabilities at their respective fair values at inception and on each reporting date. The Company utilized the BOPM to develop its assumptions for determining the fair value of the Warrants and related anti-dilution features.

As of September 30, 2016, the carrying value of the Warrants with call options was zero and the Company recognized a change in fair value of \$1,397,471 in the condensed consolidated statement of operations for the nine months ended September 30, 2016. As of December 31, 2016, all of the outstanding Warrants with call options were either exercised or canceled.

As of September 30, 2017, the fair values of the liability classified warrants and warrant derivatives were zero.

Note 9: Common Stock

On January 19, 2017, the Company issued 18,157 shares of common stock to an institutional investor in exchange for the cancellation of warrants to acquire 181,575 shares of common stock.

In March 2017, 625,013 shares of Series A-2 Convertible Preferred were converted into shares of common stock at a 1:1 ratio, with 0 shares of Series A-2 Preferred Shares remaining outstanding.

In April 2017, the Company completed the closing of an underwritten public offering of 4,928,572 shares of common stock at a public offering price of \$3.50 per share. Net proceeds were approximately \$16.0 million, after deducting approximately \$1,214,000 in underwriting discounts and commissions and estimated offering expenses payable by the Company. Raymond James & Associates, Inc. acted as the sole book-running manager of the offering and Maxim Group LLC acted as co-manager for the offering. The securities were issued by the Company pursuant to a "shelf" registration statement on Form S-3 that the Company previously filed with the Securities and Exchange Commission (and a related registration statement), and a prospectus supplement and an accompanying prospectus relating to the offering filed in April 2017.

In June 2017, the Company issued common stock upon exercise of an investor warrant. The warrant holder exercised for cash at an exercise price of \$2.98 per share. The Company received a total proceeds of approximately \$321,000 and the warrant holder received 107,755 shares of common stock.

In July 2017, the Company issued common stock upon exercise of investor warrants. The warrant holders exercised for cash at exercise prices ranging from \$2.90 to \$3.40 per share. The Company received a total of approximately \$2,921,000 and the warrant holders received 914,514 shares of common stock.

On July 20, 2017, the Company and certain holders of warrants issued in the Company's registered direct offering transaction in July 2016 (the "July Warrants") agreed to reduce the exercise price of the July Warrants held by such holders from \$2.98 to \$2.78 per share (the "July Reduced Exercise Price") in consideration for the exercise in full of the July Warrants held by such holders. The Company entered into a Warrant Repricing Letter Agreement (the "Exercise Agreement") with two holders of the July Warrants (the "Exercising Holders"), which Exercising Holders owned, in the aggregate, July Warrants exercisable for 2,765,500 shares of common stock. Pursuant to the Exercise Agreements, the Exercising Holders and the Company agreed that the Exercising Holders would exercise their July Warrants with respect to all of the shares of common stock underlying such July Warrants for the July Reduced Exercise Price, subject to the 4.99% beneficial ownership limitations contained in the July Warrants. The Company received aggregate gross proceeds of approximately \$7,688,000 from the exercise of the July Warrants by the Exercising Holders. In connection with the transaction, the Company recognized an expense for the inducement to exercise the warrants of approximately \$553,000. The Company also incurred approximately \$77,000 in agent fees, which have been recognized as an offset to the proceeds received from the warrant exercises.

In August 2017, the Company and certain holders of warrants issued in the Company's private placement transactions in August 2014 (the "2014 Warrants") and July 2016 (the "2016 Warrants") agreed to reduce the exercise price of the 2014 Warrants and the 2016 Warrants held by such holders from \$3.40 to \$3.20 per share and from \$2.90 to \$2.70 per share, respectively, (the "August Reduced Exercise Price") in consideration for the exercise of the 2014 Warrants and 2016 Warrants held by such holders. The Company entered into a Warrant Repricing Letter Agreement (the "Exercise Agreement") with holders of the 2014 Warrants and the 2016 Warrants (the "Exercising Holders"), which Exercising Holders owned, in the aggregate, 2014 Warrants and 2016 Warrants exercisable for 880,672 and 1,154,976 shares of common stock, respectively. Pursuant to the Exercise Agreements, the Exercising Holders and the Company agreed that the Exercising Holders would exercise their 2014 Warrants and 2016 Warrants with respect to all of the shares of common stock underlying such 2014 Warrants and 2016 Warrants for the August Reduced Exercise Price, subject to the 4.99% beneficial ownership limitations contained in the 2014 Warrants and 2016 Warrants. The Company received aggregate gross proceeds of approximately \$5,937,000 from the exercise of the 2014 Warrants and 2016 Warrants by the Exercising Holders. In connection with the transaction, the Company recognized an expense for the inducement to exercise the warrants of approximately \$407,000.

Note 10: Stock Option Plans, Shares Reserved and Warrants

During the quarter ended September 30, 2017, the Company granted options to purchase 285,000 shares of common stock to the new hires of the Company under the 2009 Equity Incentive Plan with exercise prices ranging from \$4.50 to \$5.65 per share. These options will vest with respect to the one-sixth of the option shares on the date that is six months after the vesting commencement date and one thirty-sixth of the option shares thereafter on each subsequent monthly anniversary of the vesting commencement date, so that the option is exercisable in full over a period of three years. These options were valued using the Black-Scholes option pricing model, the expected volatility was approximately 58%, the term was six years, the dividend rate was 0.0 % and the risk-free interest rate was approximately 2.1%, which resulted in a calculated fair value of \$815,000.

The following table summarizes the stock option activity for the nine months ended September 30, 2017:

	2009 Equity Incentive Plan	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Balance as of December 31, 2016	4,320,409	\$ 6.06	7.98 years
Options Granted	2,506,750	3.48	9.48 years
Options Exercised	(833)	3.35	—
Options Canceled/Expired	(227,509)	6.23	—
Balance as of September 30, 2017	<u>6,598,817</u>	<u>\$ 5.08</u>	<u>8.33 years</u>
Vested and Exercisable at September 30, 2017	<u>3,373,829</u>	<u>\$ 5.54</u>	<u>7.30 years</u>

The aggregate intrinsic value (the difference between the Company's closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) of the 6,598,817 and 4,320,409 stock options outstanding at September 30, 2017 and December 31, 2016 was approximately \$6,205,000 and approximately \$26,000, respectively. The aggregate intrinsic value of 3,373,829 and 2,319,963 stock options exercisable at September 30, 2017 and December 31, 2016 was approximately \$2,106,000 and \$1,000, respectively.

The following table summarizes warrants outstanding at September 30, 2017:

	Warrant Shares	Exercise Price Per Share	Date Issued	Expiration Date
Old Adamis Warrants	58,824	\$ 8.50	November 15, 2007	November 15, 2017
2013 Investor Warrants	22,057	\$ 12.16	June 26, 2013	June 26, 2018
Underwriter Warrants	28,108	\$ 7.44	December 12, 2013	December 12, 2018
Underwriter Warrants	4,217	\$ 7.44	January 16, 2014	January 16, 2019
Preferred Stock Series A-1 Warrants	1,183,432	\$ 4.10	January 26, 2016	January 26, 2021
Bear State Bank, Collateral to Line of Credit	1,000,000*	\$ 0.0001	March 28, 2016	
Preferred Stock Series A-2 Warrants	192,414	\$ 2.90	July 11, 2016	July 11, 2021
2016 Private Placement	700,000	\$ 2.98	August 3, 2016	August 3, 2021
Total Warrants	<u>3,189,052</u>			

*Exercisable upon default of Line of Credit at Bear State Bank, see Note 7.

At September 30, 2017, the Company has reserved shares of common stock for issuance upon exercise of outstanding options and warrants, and options and other awards that may be granted in the future under the 2009 Equity Incentive Plan, as follows:

Warrants	3,189,052
RSU	1,300,000
2009 Equity Incentive Plan	8,494,277
Total Shares Reserved	<u>12,983,329</u>

Note 11: Subsequent Events

Refer to Note 7 regarding the extension of the term of the USC Working Capital Loan agreement.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information Relating to Forward-Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking" statements. These forward-looking statements are not historical facts, but are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. These forward-looking statements may include, without limitation, statements about our strategies, objectives and our future achievements; our expectations for growth; estimates of future revenue; our sources and uses of cash; our liquidity needs; our current or planned clinical trials or research and development activities; anticipated completion dates for clinical trials; product development timelines; anticipated dates for commercial introduction of products; our future products; regulatory matters; our expectations concerning the timing of regulatory approvals; expense, profits, cash flow balance sheet items; or guidance concerning future periods. Such forward-looking statements include those that express plans, anticipation, intent, contingencies, goals, targets or future development and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events, and they are subject to risks and uncertainties, known and unknown, that could cause actual results and developments to differ materially from those expressed or implied in such statements. These statements are often, but not always, made through the use of word or phrases such as "believe," "will," "expect," "anticipate," "estimate," "intend," "plan," and "would." These forward-looking statements are not guarantees of future performance and concern matters that could subsequently differ materially from those described in the forward-looking statements. Important risks and factors that could cause actual results to differ materially from those anticipated by these forward-looking statements are disclosed in this Quarterly Report on Form 10-Q including under the headings "Item 1A. Risk Factors" and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," in our most recent Annual Report on Form 10-K, including without limitation under the headings "Item 1A. Risk Factors," "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and in our subsequent filings with the Securities and Exchange Commission, press releases and other communications. In addition, the statements contained throughout this Quarterly Report concerning future events or developments or our future activities, including concerning, among other matters, current or planned clinical trials, anticipated research and development activities, anticipated dates for commencement of clinical trials, anticipated completion dates of clinical trials, regulatory matters, anticipated dates for commercial introduction of products, and other statements concerning our future operations and activities, assume that we are able to obtain sufficient funding to support such activities and continue our operations and planned activities in a timely manner and assume that there are no significant delays in the successful commercialization of our products that have been approved for marketing. There can be no assurance that this will be the case. Also, such statements assume that there are no significant unexpected developments or events that delay or prevent such activities from occurring. Failure to timely obtain sufficient funding, or unexpected developments or events, could delay the occurrence of such events or prevent the events anticipated by any such statements from occurring. Further, any forward-looking statement speaks only as of the date on which it is made, and except as may be required by applicable law, we undertake no obligation to update any forward-looking statements or to reflect events or circumstances arising after the date of this Report.

Unless the context otherwise requires, the terms "we," "our," and "the Company" refer to Adamis Pharmaceuticals Corporation, a Delaware corporation, and its subsidiaries.

General

Company Overview

We are a specialty biopharmaceutical company focused on developing and commercializing products in the therapeutic areas of respiratory disease and allergy. We are currently developing several products in the allergy and respiratory markets, including our Epinephrine Injection pre-filled syringe, or PFS, product for use in the emergency treatment of acute allergic reactions, including anaphylaxis; albuterol (APC-2000) and fluticasone (APC-4000) Dry Powder Inhaler, or DPI, products for the treatment of bronchospasm and asthma, respectively; and a steroid hydrofluoroalkane, or HFA metered dose inhaler product (APC-1000) for the treatment of asthma. Our goal is to create low cost therapeutic alternatives to existing treatments. Consistent across all specialty pharmaceuticals product lines, we intend to submit Section 505(b)(2) New Drug Applications, or NDAs, or Section 505(j) Abbreviated New Drug Applications, or ANDAs, to the U.S. Food and Drug Administration, or FDA, whenever possible, in order to potentially reduce the time to market and to save on costs, compared to those associated with Section 505(b)(1) NDAs for new drug products. Our U.S. Compounding, Inc., or USC, subsidiary, which is registered as a drug compounding outsourcing facility under Section 503B of the U.S. Food, Drug & Cosmetic Act, as amended and the U.S. Drug Quality and Security Act, or DQSA, compounds sterile prescription drugs, and certain nonsterile drugs, to patients, physician clinics, hospitals, surgery centers and other clients throughout most of the United States.

Recent Developments

Epinephrine Injection USP 1:1000 0.3mg Pre-filled Single Dose Syringe

On June 15, 2017, the U.S. Food & Drug Administration, or FDA, approved the Company's Epinephrine Injection USP, 1:1000 (0.3 mg Pre-filled single dose syringe), or PFS, product for the emergency treatment of allergic reactions (Type I) including anaphylaxis. The FDA approved also the trade name of "Symjepi™" for the product. The approval was pursuant to the FDA's review of the Company's New Drug Application, or NDA, which was amended and resubmitted in December 2016, pursuant to the Food, Drug & Cosmetic Act, as amended, relating to the Epinephrine PFS product. Symjepi provides two single dose syringes of epinephrine (adrenaline), which is used for emergency, immediate administration in acute anaphylactic reactions to insect stings or bites, allergic reaction to certain foods, drugs and other allergens, as well as idiopathic or exercise-induced anaphylaxis.

In connection with our process of exploring commercialization options for Symjepi in the U.S. market after the FDA approval in June 2017, we retained an investment bank to assist us. We determined to engage in a process with the goal of maximizing the value of the asset. The process has been ongoing and as of the date of this Report on Form 10-Q, we are in active discussions with several potential partners regarding commercialization of the product. We have begun building inventory in anticipation of a commercial launch. However, the timing of a launch will depend on a number of factors, including without limitation whether we enter into an agreement with a commercialization partner and, if we enter into such an agreement, the plans of the commercialization partner. As a result, there are no assurances regarding whether we will enter into an agreement with a commercialization partner, when we may enter into any such agreement, or the date of a commercial launch of Symjepi.

APC-1000

We are continuing development of the APC-1000 product candidate, a steroid hydrofluoroalkane, or HFA, metered dose inhaler product for asthma. Following discussions with the FDA and additional consideration of the development pathway for the product, we have decided to conduct additional development work for APC-1000. Our product development timelines are subject to a number of risks and uncertainties, which can delay the actual development time. Our development plans concerning our allergy and respiratory products, including APC-1000, are affected by developments in the marketplace, including the introduction of potentially competing new products by our competitors. For example, certain products that previously have been available by prescription only have been approved by the FDA and introduced for sale over-the-counter without a prescription at a lower price than competing prescription products, and other new allergy or respiratory products have been or could in the future also be approved as "branded generic" products or as over-the-counter products. Such products could be sold at lower prices than prescription products, could adversely affect the willingness of health insurers or other third party payors to reimburse patients for the cost of prescription products, and could adversely affect our ability to successfully develop and market product candidates in our pipeline. As a result, our product development plans could be affected by such considerations. The anticipated dates for development and introduction of products in our allergy and respiratory product pipeline will depend on a number of factors, including the availability of adequate funding to support product development efforts. We believe that should we decide to pursue such applications, we would be required to submit data for an application for approval to market APC-1000 pursuant to Section 505(b)(2), although there are no assurances that this will be the case. We believe that the next pivotal trial for APC-1000 would be a Phase 3 pivotal trial, although there are no assurances that this will be the case or concerning the timing of any regulatory filings that we may make relating to commencement of clinical trials regarding the APC-1000 product.

Going Concern and Management Plan

Our independent registered public accounting firm has included a "going concern" explanatory paragraph in its report on our consolidated financial statements for the years ended December 31, 2016 and 2015 indicating that we have sustained substantial losses from continuing operations and have used, rather than provided, cash in our continuing operations, and incurred recurring losses from operations and have limited working capital to pursue our business alternatives. As of September 30, 2017, we had cash of approximately \$24.3 million, including approximately \$1.0 million in restricted cash, an accumulated deficit of approximately \$106.0 million, and liabilities of approximately \$10.3 million. As noted below under the heading "Liquidity and Capital Resources" appearing elsewhere herein, in April 2017, we completed an underwritten public offering of shares of common stock resulting in estimated net proceeds, after underwriting discounts and estimated offering expenses, of approximately \$16.0 million. In addition, in July and August 2017, we received approximately \$16.5 million of proceeds from the exercise of certain warrants (see Note 9). However, we will need additional funding for future operations and the expenditures that will be required to conduct clinical, development and regulatory activities relating to our product candidates, commercially launch any products that may be approved by applicable regulatory authorities, market and sell products, satisfy existing obligations and liabilities, and otherwise support our intended business activities and working capital needs. Such additional funding may not be available, may not be available on reasonable terms, and could result in significant additional dilution to our stockholders. If we do not obtain required additional equity or debt funding, our cash resources will be depleted and we could be required to materially reduce or suspend operations, which would likely have a material adverse effect on our business, stock price and our relationships with third parties with whom we have business relationships, at least until additional funding is obtained.

The above conditions raise substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements included elsewhere herein for the three months and nine months ended September 30, 2017, were prepared under the assumption that we would continue our operations as a going concern, which contemplates the realization of assets and the satisfaction of liabilities during the normal course of business. In preparing these condensed consolidated financial statements, consideration was given to our future business as described elsewhere herein, which may preclude us from realizing the value of certain assets. Our unaudited condensed consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. Without additional funds from debt or equity financing, sales of assets, sales or out-licenses of intellectual property or technologies, or from a business combination or a similar transaction, after expenditure of our existing cash resources we would exhaust our resources and would be unable to continue operations.

Our management intends to attempt to secure additional required funding through equity or debt financings, sales or out-licensing of intellectual property assets, seeking partnerships with other pharmaceutical companies or third parties to co-develop and fund research and development efforts, or similar transactions, and through revenues from sales of compounded sterile formulations. However, there can be no assurance that we will be able to obtain any required additional funding. If we are unsuccessful in securing funding from any of these sources, we will defer, reduce or eliminate certain planned expenditures, delay development or commercialization of some or all of our products and reduce the scope of our operations. If we do not have sufficient funds to continue operations, we could be required to seek bankruptcy protection or other alternatives that could result in our stockholders losing some or all of their investment in us.

Results of Operations

Nine Months Ended September 30, 2017 and 2016

In the discussion below, amounts of our revenues and expenses for the nine months ended September 30, 2016, do not include revenues and expenses of USC for the first quarter of 2016 and through April 11, 2016, the date on which we acquired USC, but do include revenues and expenses relating to USC after the date of acquisition.

Revenues

Revenues were approximately \$10,231,000 and \$4,004,000 for the nine months ended September 30, 2017 and 2016, respectively. Revenues for the nine-month period ending September 30, 2016 were adversely affected by the suspension of production of USC's sterile compounded formulations, product recall and remediation efforts in the third and fourth quarters of 2015 and the first quarter of 2016. USC resumed production and sales of compounded sterile formulations in March and April 2016. The suspension of production and sales of compounded sterile formulations adversely affected USC's relationships with certain of its customers and adversely affected sales of compounded sterile formulations in 2016. The increase in revenues for the first nine months of 2017 compared to the comparable period of 2016 was primarily due to the revenues of USC for the first quarter of 2016 and through the April 11, 2016, acquisition date not being included in our revenues for 2016 as well as an increase in the volume of sales of USC's compounded pharmaceutical formulations resulting in part from increased sales and marketing personnel and efforts.

Cost of Goods Sold

Cost of goods sold was approximately \$5,638,000 and \$3,167,000 for the nine months ended September 30, 2017 and 2016, respectively. The cost of goods sold for the nine-month period ended September 30, 2016 consists of cost of goods sold of compounded formulations by USC after the April 11, 2016 acquisition date, but does not include the cost of goods sold of USC before the closing date of the acquisition. Our cost of goods sold includes direct and indirect costs to manufacture formulations and sell products, including active pharmaceutical ingredients, personnel costs, packaging, storage, shipping and handling costs, the write-off of obsolete inventory and other related expenses. The cost of goods sold did not increase proportionately with the increase in revenue from the nine months ended September 30, 2016 compared to 2017, primarily because of production efficiencies achieved in 2017.

Research and Development Expenses

Our research and development costs are expensed as incurred. Non-refundable advance payments for goods and services to be used in future research and development activities are recorded as an asset and are expensed when the research and development activities are performed. Research and development expenses were approximately \$3,944,000 and \$8,325,000 for the nine months ended September 30, 2017 and 2016, respectively. The decrease in research and development expenses for the nine months ended September 30, 2017, compared to the comparable period of the prior year was primarily due to a reduction of approximately \$5,057,000 in development costs of our product candidates, including our Dry Powder Inhaler (DPI) products, Epinephrine PFS, APC-2000, APC-100, and TeloBVax product candidates. This amount was partially offset by an increase of approximately \$614,000 in development costs attributed to the APC-1000 product candidate.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") consist primarily of depreciation and amortization, legal fees, accounting and audit fees, professional/consulting fees and employee compensation. SG&A expenses for the nine months ended September 30, 2017 and 2016 were approximately \$16,975,000 and \$12,535,000, respectively. The increase in the 2017 period compared to 2016 was primarily due to an increase in SG&A expenses relating to our USC subsidiary, which to a significant extent resulted from the fact that SG&A expenses of USC for the first quarter of 2016 and through April 11, 2016, before the date of our acquisition of USC, are not included in our SG&A expenses for the 2016 period. The increase in SG&A expenses relating to USC was also attributable to increases in compensation expenses associated with increased sales revenues from USC compounded formulations; compensation expenses of USC employees, which includes salaries and wages, stock options and employee benefits; and expenses associated with other sales and marketing activities. SG&A expenses related to the commercialization activities of the Epinephrine PFS product candidate decreased by approximately \$131,000 for the first nine months of 2017 compared to the comparable period of 2016. Compensation expense for General and Administrative employees increased by approximately \$505,000 for the nine month period ended September 30, 2017, compared to the comparable period of 2016, primarily due to new hires, salary increases, stock options granted and monthly accrual of bonus. Decreases in SG&A expenses for the first nine months of 2017 compared to the comparable period of 2016 included decreases of approximately \$262,000 for business development, USC acquisition related expenses, travel, office expenses, taxes, facility and other expenses.

Impairment Expense

Impairment expenses for the nine months ended September 30, 2017 and 2016 were approximately \$96,000 and \$0. The impairment expense was attributable to assets damaged during a flood at an off-site facility at USC.

Other Income (Expense)

Other Income (Expense) for the nine month period ended September 30, 2017 and 2016, was approximately (\$1,091,000) and \$1,256,000, respectively. Other Income (Expense) consists primarily of expense on inducement to exercise warrants, interest expense, change in fair value of warrants and change in fair value of derivative liabilities. The increase in other expenses in 2017 was primarily due to the exercise and cancellation of warrants and derivatives in 2016 which accounted for the approximately \$1,397,000 of income, offset by debt related expense (Interest Expense) of approximately \$141,000 for the nine months ended September 30, 2016, and to approximately \$960,000 in expenses incurred by the Company for the nine month period ended September 30, 2017, relating to inducement to exercise warrants, and \$180,000 in debt related expenses, partially offset by recorded interest income from deposits of approximately \$49,000. The expenses on inducement to exercise warrants was in connection with the transactions entered into by the Company in the third quarter of 2017 with certain warrant holders to exercise certain warrants at a reduced exercise price. The increase in debt related expenses for the nine month period ended September 30, 2017, compared to the comparable period in 2016 was due to interest payments related to the working capital loan in the principal amount of \$2.0 million and other bank liabilities assumed in connection with the acquisition of USC in April 2016.

Three Months Ended September 30, 2017 and 2016

Revenues

Revenues were approximately \$3,388,000 and \$2,076,000 for the three months ended September 30, 2017 and 2016, respectively. Revenues for the three-month period ending September 30, 2016 were adversely affected by ongoing effect of the suspension of production of USC's sterile compounded formulations, product recall and remediation efforts in the third and fourth quarters of 2015 and the first quarter of 2016. USC resumed production and sales of compounded sterile formulations in March and April 2016. The suspension of production and sales of compounded sterile formulations adversely affected USC's relationships with certain of its customers and adversely affected sales of compounded sterile formulations in 2016. The increase in revenues for the third quarter of 2017 compared to the comparable period of 2016 also reflected an increase in the volume of sales of USC's compounded pharmaceutical formulations resulting in part from increased sales and marketing personnel and efforts.

Cost of Goods Sold

Cost of goods sold was approximately \$2,092,000 and \$1,821,000 for the three months ended September 30, 2017 and 2016, respectively. Our cost of goods sold includes direct and indirect costs to manufacture formulations and sell products, including active pharmaceutical ingredients, personnel costs, packaging, storage, shipping and handling costs, the write-off of obsolete inventory and other related expenses. The cost of goods sold did not increase proportionately with the increase in revenue from the third quarter of 2016 compared to 2017, primarily because of production efficiencies achieved in 2017.

Research and Development Expenses

Research and development costs are expensed as incurred. Non-refundable advance payments for goods and services to be used in future research and development activities are recorded as an asset and are expensed when the research and development activities are performed. Research and development expenses were approximately \$1,248,000 and \$1,494,000 for the three months ended September 30, 2017 and 2016, respectively. The decrease in research and development expenses for the third quarter of 2017 compared to the third quarter of 2016 was primarily due to a reduction of approximately \$467,000 in development costs of our product candidates, including our Dry Powder Inhaler (DPI) products and our Epinephrine PFS product, which was approved by the FDA in June 2017, partially offset by an increase of approximately \$221,000 in compensation expense related to research and development activities.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses consist primarily of depreciation and amortization, legal fees, accounting and audit fees, professional/consulting fees and employee compensation. SG&A expenses for the three months ended September 30, 2017 and 2016, were approximately \$5,748,000 and \$5,335,000, respectively. The increase was primarily due to the increase in compensation expense for SG&A employees of approximately \$274,000 for the three month period ended September 30, 2017, compared to the comparable period of 2016, as a result of salary increases, new hires, stock options granted and accrual of bonus. SG&A expenses for the third quarter of 2017 compared to the comparable period of 2016 also increased by approximately \$87,000 related to the commercialization activities of the Epinephrine PFS product candidates, and by approximately \$159,000 related to business development, insurance, IT consulting, facility and other expenses, partially offset by a decrease of approximately \$107,000 in legal expenses.

Impairment Expense

Impairment expenses for the three months ended September 30, 2017 and 2016 were approximately \$96,000 and \$0. The impairment expense is attributable to assets damaged during a flood at an off-site facility at USC.

Other Income (Expense)

Other Expense for the three month period ended September 30, 2017 and 2016, was approximately \$973,000 and \$69,000, respectively. Other Income (Expense) consists primarily of expense on inducement to exercise warrants and interest expense, offset by interest income earned from deposits. The increase was primarily due to the inducement expense of approximately \$960,000, resulting from the transaction entered into by the Company in the third quarter of 2017 with certain warrant holders to exercise certain warrants at a reduced exercise price. The decrease in interest income (expense) for the three month period ended September 30, 2017 compared to the comparable period of 2016 is attributed to debt related expenses, full payment of our USC working capital loan and an offset by interest earned from deposits.

Liquidity and Capital Resources

We have incurred net losses of approximately \$17.5 million and \$20.1 million for the nine months ended September 30, 2017 and 2016, respectively. Since inception, and through September 30, 2017, we have an accumulated deficit of approximately \$106.0 million. Since inception and through September 30, 2017, we have financed operations principally through debt financing, through private issuances of common stock and preferred stock, and through public offerings of common stock. We have primarily devoted our resources for general corporate purposes, which have included funding for research and development, selling, general and administrative expenses, working capital, reducing indebtedness, pursuing and completing acquisitions or investments in other businesses, products or technologies, and for capital expenditures. In April 2017, we completed an underwritten public offering of 4,928,572 shares of common stock at a public offering price of \$3.50 per share, resulting in net proceeds, after underwriting discounts and estimated offering expenses, of approximately \$16.0 million. In July 2017, a total of 3,680,014 investor warrants were exercised for cash that resulted in gross proceeds of approximately \$10.6 million. In August 2017, a total of 2,035,648 investor warrants were exercised for cash that resulted in gross proceeds of approximately \$5.9 million. As part of our acquisition of USC in April of 2016, we assumed debt of approximately \$5.7 million, of which approximately \$3.2 million remains outstanding, and entered into a secured \$2 million line of credit agreement. We expect to finance future cash needs primarily through proceeds from equity or debt financings, loans, sales of assets, out-licensing transactions, and/or collaborative agreements with corporate partners.

Total assets were approximately \$56.3 million and \$37.8 million as of September 30, 2017 and December 31, 2016, respectively. Current assets exceed current liabilities by approximately \$19.8 million at September 30, 2017.

Net cash used in operating activities for the nine months ended September 30, 2017 and 2016, was approximately \$9.9 million and \$17.9 million, respectively. Net cash used in operating activities declined due to the increase in revenue and reduction in research and development spending.

Net cash provided by (used in) investing activities was approximately \$(1,483,000) and \$365,000 for nine months ended September 30, 2017 and 2016, respectively. The net cash used in investing activities increased primarily due to the acquisition of new equipment.

Net cash provided by financing activities was approximately \$30.6 million and \$22.2 million for the nine months ended September 30, 2017 and 2016, respectively. Net cash flows provided by financing activities increased for the period ended September 30, 2017 due to the issuance of common stock and warrant exercises generating net proceeds of approximately \$32.8 million offset by the payment of loans of approximately \$2.2 million; in 2016, capital raised from issuance of preferred stock, common stock and warrant exercises totaled approximately \$20.2 million and proceeds of bank loan amounted to approximately \$2 million.

As noted above under the heading “Going Concern and Management Plan,” through September 30, 2017, Adamis had incurred substantial losses. The availability of any required additional funding cannot be assured. If we do not obtain additional funding that may be required in the future, we could be required to reduce or suspend operations. Even if we are successful in obtaining additional funding to permit us to continue operations at the levels that we desire, substantial time may pass before we obtain regulatory marketing approval for any of our product candidates other than our Epinephrine PFS product or begin to realize revenues from sales of any of our products, and during this period we will require additional funds to continue operations and development of our product candidates. No assurance can be given as to the timing or ultimate success of obtaining any future funding that may be required.

As we have previously disclosed in our SEC filings, in connection with our acquisition of USC and the transactions contemplated by the Merger Agreement relating to the USC acquisition, we assumed approximately \$5,722,000 principal amount of debt obligations under two loan agreements and related loan documents relating to the building, real property and equipment that certain third parties agreed to transfer to the Company or USC in connection with the Merger, as well as the two loan agreements to which USC is a party, a working capital loan and an equipment loan, and related loan documents evidencing loans previously made to USC, and we agreed to become an additional co-borrower under the USC Loan Documents. The lender in all of the USC Loan Documents was First Federal Bank and/or its successor Bear State Bank, referred to as Lender or the Bank. In November 2016, we entered into amendments of our loan agreements with the Bank. Under the loan agreements and with the full pay off of the USC Working Capital Line, we are required to make current periodic interest and principal payments under the Amended Loan Documents, in an amount of approximately \$49,000 per month; the amount of required interest payments is subject to change depending on future changes in interest rates. The balances of the Building Loan and Equipment Loan are due and payable on August 8, 2019 and October 1, 2019, respectively. We also entered into a loan and security agreement with the Lender, referred to as the Adamis Working Capital Line, pursuant to which we may borrow up to an aggregate of \$2,000,000 to provide working capital to USC, subject to the terms and conditions of the loan agreement. Interest on amounts borrowed under the Adamis Working Capital Line accrues at a rate equal to the prime interest rate, as defined in the agreement. Interest payments are required to be made quarterly. As amended effective March 31, 2017, the entire outstanding principal balance, and all accrued and unpaid interest and all other sums payable pursuant to our loan agreement with the Bank, are due and payable on March 1, 2018, or sooner upon the occurrence of certain events as provided in the loan agreement and related documents. Our obligations under the Adamis Working Capital Line are secured by certain collateral, including without limitation our interest in amounts that we have loaned to USC; a warrant that we issued to the Lender to purchase up to 1,000,000 shares of our common stock at an exercise price equal to par value per share, only exercisable by Lender if we are in default under the loan documents and if the Lender delivers a notice to us and we do not cure the default within the applicable cure period; and our Certificate of Deposit (“CD”) with the Lender of approximately \$1,000,000.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company’s critical accounting policies and estimates previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016 have not significantly changed. Refer to Note 1 to the accompanying financial statements of this Quarterly Report on Form 10-Q for the updates to certain policies adopted during the nine months ended September 30, 2017.

Recent Accounting Pronouncements

Recent accounting pronouncements are disclosed in Note 1 to the accompanying financial statements of this Quarterly Report on Form 10-Q.

Off Balance Sheet Arrangements

At September 30, 2017, Adamis did not have any off balance sheet arrangements.

ITEM 3. Quantitative and Qualitative Disclosure of Market Risk

Not required.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports, filed under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance and not absolute assurance of achieving their objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As required by the SEC Rule 13a-15(b), we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls Over Financial Reporting

There has been no change during the quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we may be subject to various legal proceedings that arise in the ordinary course of our business activities. Although the results of legal proceedings cannot be predicted with certainty, we are not aware of any pending legal proceedings to which we are a party or of which any of our property is subject the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our business, financial condition or results of operations. Regardless of the outcome, any legal proceedings can have an adverse effect on us because of legal fees, defense and settlement costs, diversion of management time, attention and resources, and other factors.

Item 1A. Risk Factors

As a smaller reporting company, Adamis is not required under the rules of the Securities and Exchange Commission, or SEC, to provide information under this Item. Risks and uncertainties relating to the amount of cash and cash equivalents at September 30, 2017, and uncertainties concerning the need for additional funding, are discussed above under the headings, "Going Concern and Management Plan" and "Liquidity and Capital Resources" in the Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Form 10-Q, and are incorporated herein by this reference. Other material risks and uncertainties associated with Adamis' business have been previously disclosed in our most recent Annual Report on Form 10-K filed with the SEC, and subsequently filed Quarterly Reports on Form 10-Q, included under the heading "Risk Factors," and those disclosures are incorporated herein by reference.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Except as disclosed below, information required by this Item regarding sales of equity securities during the quarter ended September 30, 2017, without registration under the Securities Act of 1933, as amended, has been previously included in Current Reports on Form 8-K filed by the Company. In July 2017, the Company issued 914,514 shares of common stock upon exercise of warrants granted to a small number of investors in connection with the August 2014 and July 2016 private placement transactions discussed in Note 6 to the financial statements. The warrant holders exercised the warrants for cash at exercise prices ranging from \$2.90 to \$3.40 per share, and the Company received cash proceeds of approximately \$2,921,000. The securities were issued in private placement transactions without any public solicitation in reliance on Section 4(2) of the Securities Act of 1933, as amended, and/or Regulation D promulgated under the Securities Act. Each investor represented that the securities were being acquired for investment purposes, for the investor's own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof in violation of the Securities Act, and that such investor was an accredited investor as defined in Rule 501 of Regulation D.

As previously disclosed in a Report on Form 8-K filed by the Company with the Commission, in August 2017 the Company issued a total of 2,035,648 shares of common stock upon exercise of warrants granted to a small number of investors in connection with the Company's August 2014 and July 2016 private placement transactions discussed in Note 6 to the financial statements. The warrant holders exercised the warrants for cash at exercise prices ranging from \$2.70 to \$3.20 per share, and the Company received gross cash proceeds of approximately \$5,937,000. The securities were issued in private placement transactions without any public solicitation in reliance on Section 4(2) of the Securities Act of 1933, as amended, and/or Regulation D promulgated under the Securities Act. Each investor represented that the securities were being acquired for investment purposes, for the investor's own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof in violation of the Securities Act, and that such investor was an accredited investor as defined in Rule 501 of Regulation D.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Removed and Reserved.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The following exhibits are attached hereto or incorporated herein by reference.

- 10.1 [Warrant Repricing Letter Agreement. \(1\)](#)
- 10.2 [Warrant Repricing Letter Agreement. \(2\)](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1 [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2 [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference to exhibit 10.1 filed with the Report on Form 8-K filed with the Commission on July 20, 2017.
- (2) Incorporated by reference to exhibit 10.1 filed with the Report on Form 8-K filed with the Commission on August 21, 2017.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADAMIS PHARMACEUTICALS, INC.

Date: November 14, 2017

By: /s/ Dennis J. Carlo
Dennis J. Carlo
Chief Executive Officer

Date: November 14, 2017

By: /s/ Robert O. Hopkins
Robert O. Hopkins
Vice President, Finance and Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Dennis J. Carlo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Adamis Pharmaceuticals Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and (15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting disclosure to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

By: /s/ Dennis J. Carlo
Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Robert O. Hopkins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Adamis Pharmaceuticals Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and (15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting disclosure to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

By: /s/ Robert O. Hopkins
Vice President, Finance and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

The undersigned, Dennis J. Carlo, the Chief Executive Officer of Adamis Pharmaceuticals Corporation (the “Company”), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certifies that, to the best of my knowledge:

- (1) the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DENNIS J. CARLO

Dennis J. Carlo

Chief Executive Officer

Dated: November 14, 2017

This certification is being furnished to the SEC with this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

The undersigned, Robert O. Hopkins, as Vice President, Finance and Chief Financial Officer of Adamis Pharmaceuticals, Corporation (the "Company"), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certifies that, to the best of my knowledge:

- (1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT O. HOPKINS

Robert O. Hopkins

Vice President and Chief Financial Officer

Dated: November 14, 2017

This certification is being furnished to the SEC with this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.
